Dividend Stocks From the Energy Patch: 1 to Buy, 1 to Avoid

Description

If you're looking for some nice dividend-paying stocks, finding a high yield is only half the battle. You have to ask yourself numerous questions as well. Is the dividend sustainable? Is it likely to be increased? Does the company have sustainable earnings and a clean balance sheet?

If you're not careful, you could find yourself facing big losses as the dividend you rely on gets cut. To illustrate, below we look at one dividend stock you should avoid and finish by looking at one you should buy instead.

A dividend stock to avoid: Crescent Point Energy

At first glance, **Crescent Point Energy's** (TSX: CPG)(NYSE: CPG) dividend looks irresistible, with a yield of 6%. If you look a little closer, though, something looks strange. The company pays out a dividend of $0.23 per share every month, yet only made $0.37 per share all of last year. How can Crescent Point afford such a payout?

Crescent Point offers a 5% incentive to any shareholder willing to accept payment in shares instead of cash. Most shareholders accept the offer. This is the main reason why the company's average shares increased 19% in 2012 and another 17% last year.

So who funds this 5% incentive? Quite simply, it's the rest of the shareholders, the ones taking their dividends in cash, who pay the price. So if you believe in Crescent Point — in its defense, the stock is up 24% in the last 12 months — then you should take your dividend in shares. However, if you're looking for a cash payout, you should look elsewhere.

A dividend stock to buy instead: TransCanada

If you're looking for a safe, reliable dividend, you should be investing in safe, reliable companies. A perfect example is pipeline operator **TransCanada** (TSX: TRP)(NYSE: TRP). The company operates critical infrastructure, makes money from long-term contracts, and is facing increased demand for its services.

TransCanada also has an excellent track record. Since 2000, its dividend payout has increased every year, growing by 7% per year. Shareholders have been richly rewarded over this time, earning 15% per year on average.

The company's share price is currently being held back by nervousness over the Keystone XL pipeline proposal. As a result, the shares yield a healthy 3.7%. This isn't as high as Crescent Point's, but it's a great number for such a strong company.

In addition, Keystone represents only a small fraction of TransCanada's $36 billion of commercially secured projects. If you're willing to look past the headlines, you can feel very safe with this rock-solid dividend.

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